PROCESS
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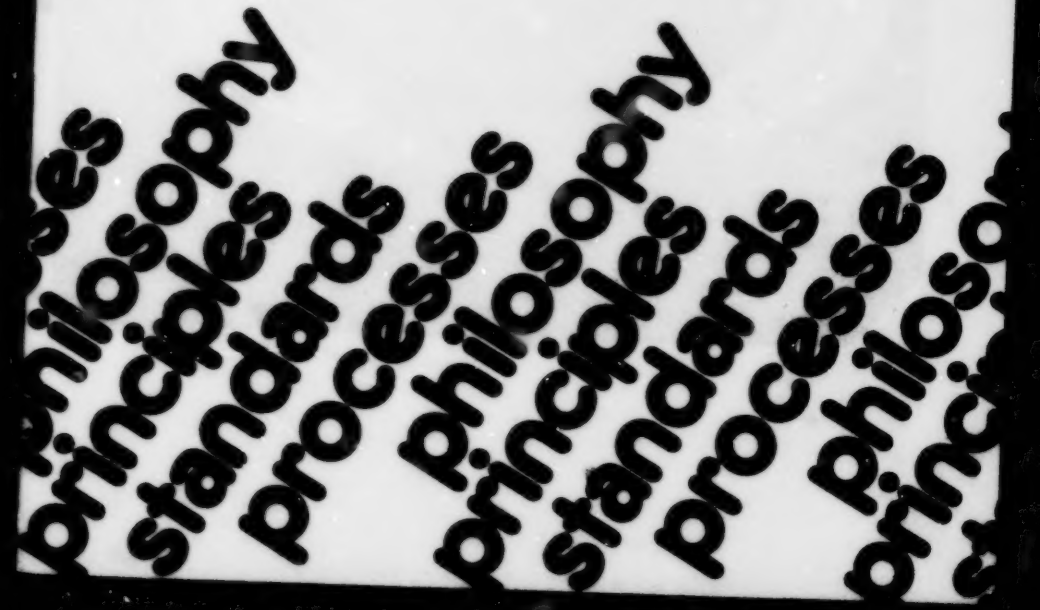
Management
Board
of Cabinet

OPS Management
Series

Operational Planning, Budgeting, and Reporting Processes



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The Management Cycle

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Preface

The Management Standards Project was approved by the Management Board and Cabinet in March 1980. Its purpose is to lay the groundwork for further improving management in the Ontario Public Service over the next decade by:

- establishing a basic framework for managing in the 80s;
- developing a publications series which includes standards for the quality of management in the 80s; and
- ensuring that forums for dialogue on management issues and initiatives are established.

Ontario's Management Philosophy was published in early 1981 as a cornerstone to this series of booklets on principles and standards for management processes. The **Philosophy** states that

"...the management process channels, in a purposeful manner, the vitality of each individual. It brings people together in goal-oriented teams and creates an efficient network of communication."

This booklet is one of the first published which describes a ministry management process and sets standards for that process. The framework within which the "Ministry Management Processes" series is organized is the Management Cycle. This booklet is the second of three which falls into the "plan and allocate" group.

This booklet was developed by a working group of staff from ministries for use by ministries as a set of criteria against which the quality of their processes can be measured. The Management Standards Project gratefully acknowledges the contributions of all those involved.

The standards in this booklet must be open to revision as times and needs change. It is recognized that no ministry will measure up to all the standards immediately, but that every ministry meets some of the standards and has a process base on which to build.

The Management Standards Project will work closely with the Civil Service Commission and ministries in encouraging the development of comprehensive training and education programs to complement these process publications, and will continue to establish forums for dialogue.

Whatever method of accountability for meeting standards is applied, ministry managers should use these as one basic self-measure of the quality of their management. The driving force in the attainment of management standards will continue to be a self-imposed striving for excellence.

September 30, 1981

1. Introduction

Management processes used by the Government of Ontario are related to a cycle of five management functions. These functions are:

- evaluate and set direction
- plan and allocate
- organize and staff/specify and acquire
- motivate and direct/install and operate
- monitor and maintain direction.

The management cycle diagram and the framework of ministry management processes which flow from it are the subject of an overview booklet in this publications series.

The form and structure of the management processes will vary from ministry to ministry. However, the basic purpose, steps and criteria against which the quality of the management process can be measured – in other words the standards for the processes – should be consistently applied and striven for across all ministries.

The process of **Operational Planning, Budgeting and Reporting** relates to two of the management functions in the cycle, as the inside cover shows.

The process of operational planning, budgeting and reporting is ongoing and integrated, but is broken down into three interrelated components for ease of description.

Operational Planning In this part of the total process, mid-range plans are converted into a specific set of planning decisions, and include statements of resource requirements and expected results.

Budgeting This component of the process involves the distribution and scheduling of available resources required to undertake the decisions taken at the operational planning stage. Results and resources are committed based on the ministry's resource allocation.

Reporting This component involves monitoring and comparing actual resource usage and result achievements to plans, and communicating these along with recommendations for corrective action. Decisions based on reporting should effect any necessary adjustments or assist the manager in regaining management control where the desired direction is not being maintained.

Many ministries use other terminology to describe the same process, such as work planning, management planning, or may use specific techniques to assist them, such as Goal Setting and Review or Zero Base Budgeting. This booklet uses the terms operational planning, budgeting and reporting as general terms, and ministries should not feel obliged to adopt them. It is important that the understanding of, and commitment to, existing processes, be reinforced and built upon.

Figure 1 represents the process of operational planning, budgeting and reporting and its relationship to some other management processes and activities. Each component of the process will be further explained in the ensuing chapters.

Who are these standards for?

The principles and standards in this booklet, as a part of the ministry management processes series, are for all ministry managers at all levels, from the unit manager to the deputy minister. The word "manager" is used to mean any employee who is responsible and accountable for achieving results and the use of resources. This booklet is also addressed to those professionals and support staff who are involved in the development or maintenance of the process of operational planning, budgeting and reporting.

How is this process linked to other management processes?

This process must be linked closely to other management processes both within and outside the ministry. The ministry's strategic planning, priority planning, and the resource allocation provide basic direction to the annual operational planning, budgeting and reporting process. This process provides a basis for individual objective setting and performance appraisal processes, as well as feedback for longer term planning and resource allocation decisions. In addition, the ministry's internal audit process assesses and reports on the effectiveness of the control elements in the planning, budgeting and reporting process.

Outside the ministry, this process interfaces with many government-wide processes in the areas of planning and allocation, and monitoring and reporting. These include the Cabinet submission process for policy approval, the Estimates process, and other resource acquisition processes in the areas of human resources and capital projects.

An example of a closely linked government-wide process is the year-end review of the results portion of the Estimates submission.

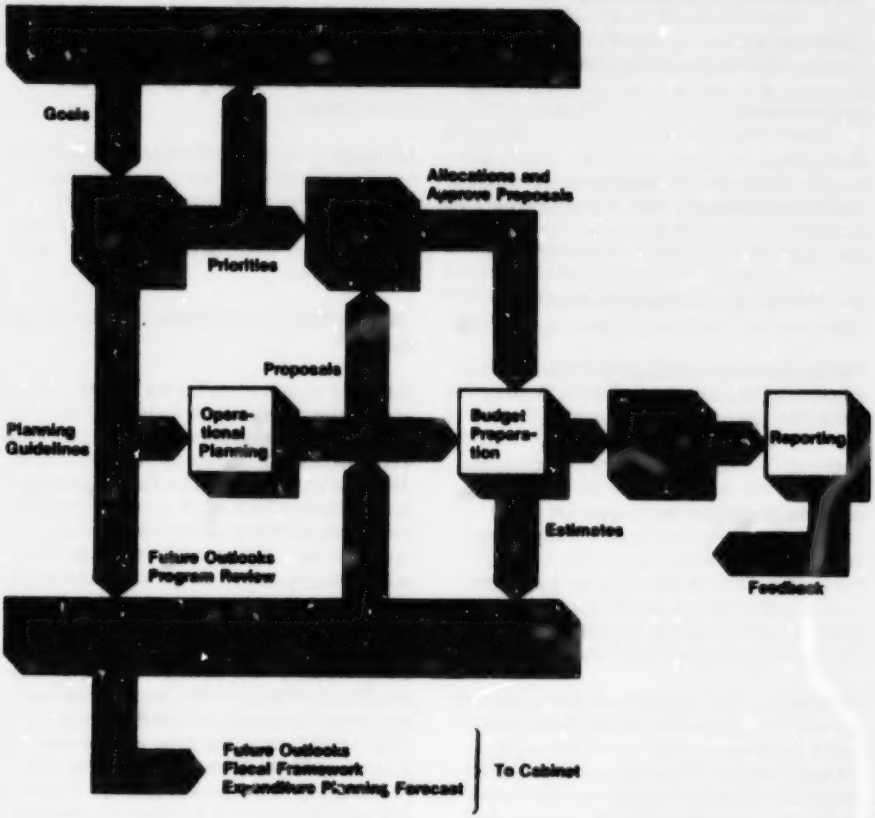
While there may be some differences in the types of information required by ministry management on the one hand and by Management Board on the other, *the objectives and indicators used in reporting ministry program results to the Board should generally be consistent with those used in the ministry's internal planning and reporting process*. This principle will not only strengthen the quality of information reported to the Board but will ensure an effective linkage between the ministry's internal process and the external reporting to the Board.

How responsive is the process to change?

As circumstances in the "environment" change, as policies and priorities shift, and as in-year financial adjustments are made, all planning and decision-making processes throughout the ministry must be responsive. The reporting part of the process exists to serve as a monitoring tool for managers to use in considering the need to adjust plans and budgets.

This ability to respond to change during the implementation of the plan should not be seen as a suggestion of failure in the initial planning exercise. Rather, it should be seen as a step that assures its continued success in guiding the ministry towards meeting its goals.

Figure 1 Ministry Planning Processes



This figure shows the inter-relationships of Ministry planning processes and the linkage to the Government-wide allocation process.

What are the time cycles for this process?

Each component in the total process has its own particular cycle (the time when it is done) and time horizon (the period it is done for) which may be described as follows:

Operational planning is performed on a yearly cycle with a one-year time horizon and is subject to in-year adjustments and modification.

Budgeting is carried out on both a yearly and monthly time horizon for both resources and results expectations. The yearly cycle of budgeting flows from the annual Estimates process.

Reporting is done on a regular periodic basis, usually monthly or quarterly.

What benefits will a good operational planning, budgeting and reporting process provide to managers?

In the early phase of planning all managers are given the opportunity of proposing and encouraging higher level approval of the ideas and actions they think are important contributions to the public or client groups they serve. Prior to this managers are also able to prescribe to lower levels of management, general direction and guidelines for the planning submissions they will receive.

Operational planning and budgeting provide a basis for orderly, efficient implementation and a yardstick against which to measure program results. Effective operational planning and budgeting lets all managers know what they are expected to do, when to do it, and the resources they have to do it with. It allows managers to know how their work contributes to the achievement of overall ministry goals. It provides a specific framework for considering decisions regarding the application of constraints.

In the reporting stage of the process achievements are documented and early warning is supplied to managers if corrective action is needed.

Great emphasis is placed on the need for this process to be dynamic, interactive and participatory. This process should serve to enhance management decision-making and control, but should also serve to motivate, encourage and develop the people who make it work.

Developing and using an effective process of operational planning, budgeting and reporting, in line with these standards and principles, should contribute to an environment of enthusiasm, trust, open negotiation and accountability.

Do management process and politics mix?

Many managers perceive the kind of management process we are describing to be at odds with the process of decision-making at the political level. Our system of responsible, democratic government confers on ministers and Cabinet collectively the responsibility for decision-making for which they are held accountable to the Legislature and to the public. Any management process which is to be effective must be *supportive of* and *responsive to* the decision-making processes and direction of Cabinet and its committees. It must be supportive in contributing the best information and alternatives as a basis for decision-making. It must be responsive in its ability to be flexible and adapt to shifts in direction at any time. Far from making management process irrelevant, our government's decision-making process calls for excellence in planning, budgeting, and reporting of management information.

What are the general principles which relate to this process?

Specific definitions and standards which apply to each part of the total process are contained where each component is described in the following chapters of the booklet. Some general principles, however, can be set down based on the direction provided in this introduction.

Process Principles:

Operational planning, budgeting and reporting is satisfactory when:

1. The process is supportive of, and responsive to, the political decision-making system, based on our democratic and responsible system of government.

2. The process involves all managers at every level of the ministry organization.

3. The process assists the manager in doing the job more easily and effectively.

4. The process provides the basis for holding managers accountable for results and rewarding them for achievements.

5. Integration of the components of planning, budgeting and reporting into an ongoing process between each level of ministry management is achieved.

2. Operational Planning

Operational planning is the part of the operational planning, budgeting and reporting process which determines:

- **what program results are to be achieved in support of ministry objectives;**
- **what activities are necessary to achieve those results;**
- **how program performance will be monitored and measured;**
- **what resources are required to carry out the plans; and**
- **who is responsible for implementation.**

Purpose

The Ontario Government's **Management Philosophy** emphasizes the use of management processes which stress results, accountability, and decentralization of decision-making. The operational planning process is one of the most important parts of a ministry management process for creating this results-orientation and accountability. In addition, the **Management Philosophy** reinforces the need for effective planning.

"Setting Direction
All managers have a primary responsibility for setting broad or specific direction, consistent with priorities set by higher levels. Managers are equally responsible for communicating this direction to all involved. The planning process is essential to both setting and communicating direction."

Linkage with Strategic Objectives and Priorities

In every ministry decisions are regularly being made which set the longer-range objectives of the organization and guide its future. The formality of this process may vary from a comprehensive strategic planning or priority planning process to a more informal situation in which ad hoc decisions set the ministry long-range direction (via executive policy meetings, ministerial speeches, etc.). The mechanism for turning these priority plans into actions and results is operational planning.

Process Standard:

1. Operational plans are responsive to Government and ministry strategic objectives and priorities.

Development of Planning Guidelines

Some programs and initiatives will have greater importance to a ministry than others and, in times of constraint, this distinction becomes even more significant. Because the resources available to a ministry are limited, there must be a setting of priorities by senior executives to decide which initiatives most need some of the scarce resources. These decisions on priorities, which are often made in preparation for the resource allocation process, will act as a guide to managers in the preparation of their operational plans and also as a frame of reference when plans are reviewed and approved.

Process Standard:

2. Senior management develops planning guidelines which give managers direction on estimated financial resources available, policies, priorities, objectives and new initiatives.

Formal Process

Formal instructions should be issued as an aid to managers responsible for developing operational plans. These should explain how operational plans are to be prepared to show both results expectations and resource requirements.

The use of a standardized process and format ensures that the same policy issues, priorities, needs and questions are addressed across the ministry. It also facilitates aggregation of the plans and a review and analysis to ensure consistency with the planning guidelines. Additional material may be added or deleted at each organizational level based on the information needs for decision-making.

Process Standards:

3. Formal instructions are distributed to all managers describing how they are to prepare plans to show both results expectations and resource requirements.

4. Plans are submitted in a standardized format.

Involve All Managers

In keeping with **Ontario's Management Philosophy**, decision-making should be decentralized. This involves the systematic delegation of authority to the lowest appropriate level in the organization. It would involve those managers who are closest to the people served by the programs. In addition, it would start the chain of accountability for results from the front line manager on up to the deputy minister.

Process Standards:

5. Plans are developed by every level of manager.

6. Plans developed at each level of management are approved by a higher level of management.

7. Each level of management is held accountable for results.

Setting Targets for Achievement

At the front line management level the planning guidelines are translated into operational plans for the coming year, both for the on-going operations of the unit and for new initiatives.

It is assumed that, as a pre-condition for effective operational planning, each organizational unit has a basic statement of purpose, mission, or role which describes the mandate of the unit. The plans for ongoing operations are linked to the basic purpose of the unit. The new initiatives are linked to the planning guidelines from senior management or can be a proposal originating from the manager.

In developing operational plans, managers should use their creativity in examining possible alternative courses of action to achieve objectives and their associated costs and benefits. ("Costs" can be any type of resource). The plans will set performance targets (or the results to be achieved) for each objective or activity. Also, they will show what performance indicators will be used to measure the achievement of results.

It is important that performance indicators (both those required by senior managers and central agencies and those used at lower levels in the organization), be developed with care. They should be quantifiable wherever possible, so that results can be monitored and measured. In addition, they should provide information that managers find useful for decision-making, such as indicators for measurement of workload, efficiency and effectiveness.

Process Standards:

8. Plans include program performance targets (results to be achieved).

9. Plans specify resources required, target dates, and the activities necessary to achieve the results described.

10. Plans specify indicators to be used to measure results and include:

- **workload indicators**
- **efficiency indicators**
- **effectiveness indicators.**

11. Plans provide information adequate for:

(a) the respective levels of ministry management for decision-making, and
(b) are consistent with central agency requirements.

Setting Priorities

In order to make program decisions in an environment of competing priorities and financial constraint, it is essential that operational plans state proposals in some order of priority. This communicates the suggested relative importance of each item to the next level of management and serves as a tool in deciding which activities are to be funded and which are not.

Priorizing items in the plans should be carried out at each successively higher level in the organization and decisions about establishing or changing priorities should be communicated to all affected staff.

While the method of determining and indicating priorities will differ from ministry to ministry, the principle of priorizing in plans is important. This is useful in managing the application of in-year constraints.

Process Standard:

12. Operational plans include proposals in order of priority.

Review of Plans

After the operational plans are developed and are aggregated up through the ministry, the planned activities, resource requirements, performance targets and priorities are reviewed and negotiated between managers and their superiors. Any necessary modifications are made to the plans at this point and both parties agree to the finalized content. The information is aggregated as it moves from one organizational level to the next so that each management level receives only that information it needs to make decisions.

There is generally a review of the operational plans by a central group in the ministry on behalf of the deputy minister to ensure compatibility and compliance with the formal instructions and guidelines.

Tentative approval of plans is given after the ministry's resource allocation is known and finalization of plans occurs after the ministry Estimates are approved. This should result in a confirmation of plans and commitments to all concerned.

Process Standards:

13. There is a negotiation and approval process for plans at each organizational level.

14. Plans are aggregated as they are passed up through the ministry.

Adaptability to Change

Every plan will require some revision, regardless of how well it was prepared. Normally plans will be adjusted at the various approval stages, including after the Ministry's resource allocation is established. In-year adjustments may be necessary when the factors which influenced the planning decisions during the year, ministry policies and priorities change, or the information reported on the achievement of results shows that targets need to be reviewed and revised. The process should have the flexibility to accommodate legitimate changes to plans and, when justified, allow for adjustments to the results commitments and rescheduling the resource usage.

Process Standards:

15. Plans are responsive to changes in circumstances and, when justified, plans are reviewed and revised.

16. Any changes to plans are communicated to all managers who had responsibility for the planning work or who are affected by the changes.

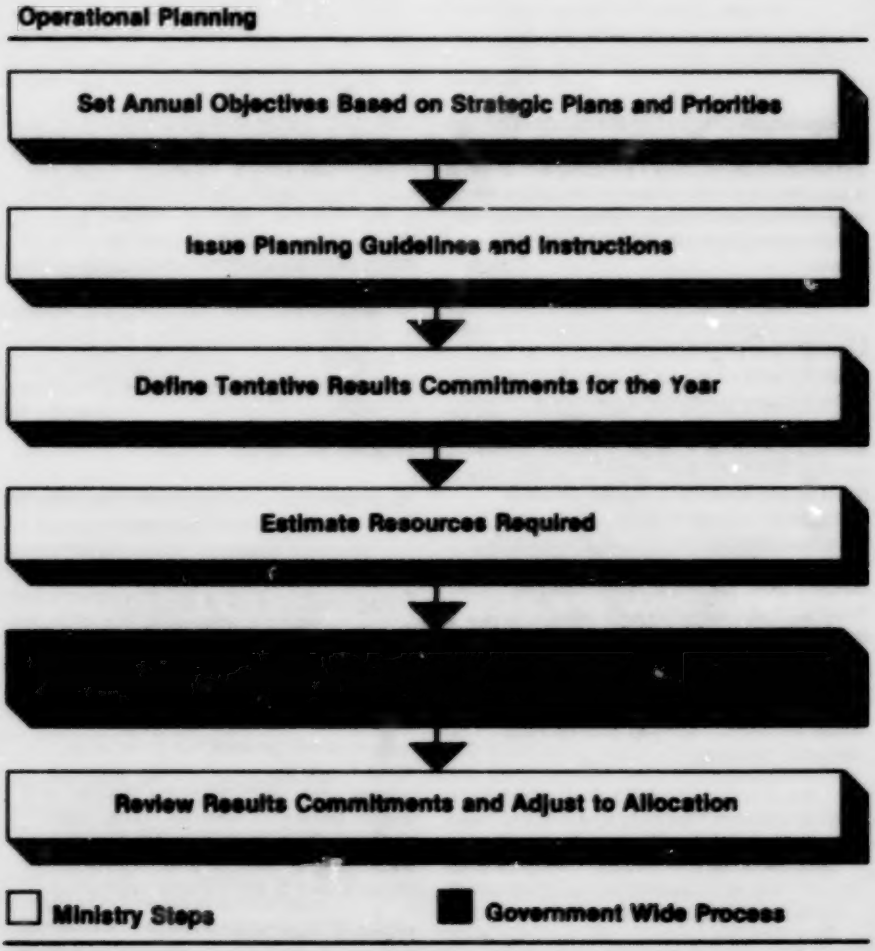
Link to Performance Appraisal

In a results-oriented management environment managers are assigned the responsibility of carrying out certain tasks and are held accountable for their achievements. Specifically, when responsibility is assigned for certain portions of the operational plans, a manager must feel committed to attain the required results. The vehicle used to ensure that the necessary accountability is upheld is the performance appraisal process. There should be a direct link between the individual objectives set for a manager as part of the performance appraisal exercise, and the objectives or targets set in the segment of the operational plan for which the manager is responsible. This linkage reinforces the commitment of managers since the achievement of the results shown in the plan will be favourably reflected in the manager's performance appraisal.

Process Standard:

17. Plans are linked to individual objective setting and management performance appraisal.

Figure 2 **This diagram summarizes the major elements in operational planning which feed into and flow from the Government's resource allocation.**


Operational Planning
Set Annual Objectives Based on Strategic Plans and Priorities
Issue Planning Guidelines and Instructions
Define Tentative Results Commitments for the Year
Estimate Resources Required
Review Results Commitments and Adjust to Allocation
Ministry Steps
Government Wide Process

3. Budgeting

Budgeting is the part of the process of assigning financial resources to organizational units so they can carry out their operational plans; and of scheduling the use of the resources and the results to be achieved outlined in the operational plans.

Budget Preparation Guidelines

In the budgeting process a ministry is, by and large, responding to central agency direction and requirements in terms of timing, format, content, and overall allocation. The Management Board Secretariat issues detailed instructions, usually in the fall of the year, for the preparation of ministry estimates submission to Management Board. At the ministry level, the process involves the translation of the ministry allocation into a description of the financial resources required for each Program (Vote) and Activity (Item). These requirements should be based on the operational plans and the ministry's priority planning and resource allocation process.

Managers should receive detailed guidance on budget preparation so that they can respond adequately. It is helpful if they are made aware of central agency instructions so that they can better understand the dominant role the central agencies must play in this exercise in coordinating the Estimates process for the government as a whole. Some ministries have fully integrated operational planning and budgeting processes, resulting in planning instructions and budgeting guidelines being part of the same package.

Process Standard:

18. Detailed budget preparation guidelines are issued to all managers.

Preparation of a Budget

In order to develop detailed budget submissions, ministry managers must "fine tune" the estimated resource requirements that have already been identified in the operational plans. The requested financial resources will be shown in more detail according to the government's standard classification of accounts (i.e. salaries and wages, employee benefits, transportation and communications, services, supplies and equipment, acquisition and construction of physical assets and transfer payments).

Process Standard:

13. Budgets are clearly based on the documented operational plans.

Managing by Results Abstracts and Reporting

Related to the financial requirements for each activity shown in the Estimates is a results commitment in which the ministry shows what it intends to accomplish with its funding allocation. An indicator of this commitment will be used to monitor and report progress for the fiscal year. If the ministry has developed meaningful objectives and performance indicators for its operational plans, it should be able to use the information gathered for its own senior management on results commitments as the basis for the reporting of results to Management Board.

Process Standard:

20. The performance indicators used to measure achievement of results committed in the operational plans form the basis for reporting results to Management Board.

Review of Budgets

The budget submissions for all organizational units should be reviewed to ensure that they adequately reflect resource requirements and that each level of management understands its commitments.

Process Standard:

21. Budgets for all organizational units are reviewed to include:

- **verification of all computations**
- **comparison of unit costs to averages for other similar organizational units**
- **verification of resource requirements**
- **comparison of aggregate program costs with program allocations**
- **assessment of budget implications for support services.**

Budget Approval

The budgets should be approved at the senior management level since the senior executives shoulder the final responsibility for achievement of program results and accountability for resources. These executives must satisfy themselves that the resources requested and the achievement of a certain level of results strike an acceptable balance.

Approval of the ministry's Estimates in the Legislature is the final decision-making stage in the process. However, legislative approval frequently occurs well into the fiscal year and it is necessary to issue tentatively approved budgets to all managers in the interim.

Approved budgets should be compatible with results expectations and both should be communicated to each manager who will be responsible and accountable for them.

Process Standard:

22. Budgets are approved at the senior management level to ensure that:

- **plans are complete**
- **workload forecasts are realistic**
- **performance standards and results expectations are attainable**
- **performance standards are comparable to those of similar centres.**

Scheduling of Resources and Results

The Ministry of Treasury and Economics has a responsibility to efficiently manage the cash flow of the government over the fiscal year. Managers should understand the central agency requirement for scheduling (calendarizing) use of resources and appreciate the need for reliable forecasts. Managers can only produce accurate forecasts if they develop their timetable for achievement of results and then schedule the use of the corresponding resources.

Process Standard:

23. Managers schedule (calendarize) results to be achieved and resources to be used.

Adjustments to Budgets

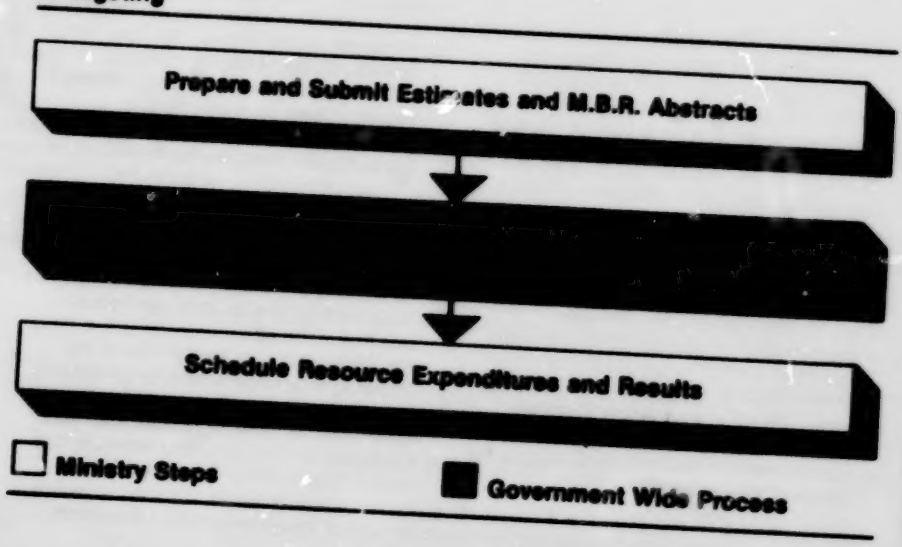
Managers in the public service have become accustomed, over the last few years, to the public's demands for reduction in the size and cost of government. In this time of restraint, they have seen that significant in-year budget reductions must be borne by the ministries for a variety of reasons. In order to keep the operational planning, budgeting and reporting process meaningful and the operational plans relevant, all budgetary adjustments should be reflected in corresponding changes to results expectations and vice-versa.

Managers are often called upon to determine and state the impact of potential financial constraints on programs as a basis for determining the application of an in-year constraint within a Ministry. Decisions as to the final application of constraints should be clearly related to corresponding changes in results commitments.

Process Standard:

24. Corresponding changes to results expectations are made following budget adjustments.

Figure 3 This diagram summarizes the two major steps in budgeting which lead up to and follow the government-wide Estimates review.



4. Reporting

Reporting, often called "management reporting", refers to the feedback provided to higher levels of management concerning the achievement of, or failure to achieve, critical steps in an approved plan and any significant actual or expected variations in results or resources allocated to those plans.

Purpose

The primary purpose of reporting is to provide timely, relevant and accurate management information at all levels for decision-making and control. Effective reporting should tell a manager if a program is being implemented according to plan, if not why not, and what adjustment or corrective action is required. **Ontario's Management Philosophy** states that:

"All managers are responsible for evaluating individual, program, and organizational performance on a regular basis and for ensuring that credible measuring systems are used to do so. These tasks can sometimes prove difficult, but mastering evaluation skills is fundamental to successful management in government."

In order to evaluate program and organizational performance, a manager must participate in, and use information from, a number of processes which fall under the control or "monitor and maintain direction" step of the management cycle.

The term reporting is used here to represent a part of the management control function relating to annually prepared operational plans and budgets. Hence, it does not refer to reporting of management information related to strategic or multi-year planning; nor does it include other assessment tools such as program evaluation or audit.

In a period of heightened public scrutiny and accountability, it is increasingly important that all managers be able to demonstrate the efficient use of public funds and defend the efficacy of programs based on clearly stated results. In order to do this effectively, an accurate and meaningful process for documenting and communicating management information is essential.

In a time of continuing financial restraint the difficult decisions to be made and the setting of priorities depends on meaningful information on the resources each program expends and on the corresponding results achieved.

In order to more clearly set out the principles and standards for an effective reporting process, a more comprehensive and specific definition is offered:

Management reporting is the process of regularly and formally monitoring and measuring the resources utilized and results achieved in comparison to those planned; analyzing and explaining variances, and making recommendations for adjustment to plans and budgets.

This definition sets out the three key steps in a meaningful reporting process and thereby sets a general standard:

Process Standard:

25. Reporting includes three basic steps:

- **Actual resources expended and results achieved are measured and compared to those planned.**
- **Variances from plans are analyzed and explained.**
- **Recommendations for corrective action or adjustment to plans are made.**

In developing or assessing a reporting process, these three elements will be used as the basis for the remaining standards.

Results and Resources Measured and Compared

A basic assumption in the foregoing general standard is that the measures or "indicators" of results and resources are to be decided on at the same time as objectives and priorities are determined, i.e. at the Operational planning stage. In this way, the actual results achieved and resources utilized can be meaningfully compared with those targets in the operational plan and budget.

Paramount to the acceptability of a reporting process is that it must be supported by an accurate and reliable record or information system. The data base for the reporting process should be subject to verification and audit and must be seen to be credible by all concerned.

Process Standard:

26. Reporting is supported by accurate and reliable information systems which are subject to verification and audit.

It is important here to draw a distinction between information systems and management reporting. Information systems are the record systems which provide the raw or summary information to support the management reporting process.

Most information systems collect and store much more operational and resource data than is required for reporting. The challenge lies in being selective of the data which is most critical or relevant at each organizational level and analyzing and explaining it in a way that is meaningful for control and decision-making.

Exception reporting is based on the assumption that managers can avoid this deluge of data by requiring information only on those things which are not going according to plan. Conversely, it is assumed that activities are going according to plan if they are not reported on. If a reporting process is to be meaningful, is to avoid the proliferation of paper and make efficient use of managers' time, it must be exception-based.

Information or data other than significant variances from plans is always still available from information systems and records of "planned versus actual" data if for some reason it is required.

Process Standard:

27. Reporting is exception-based at each organizational level in that it provides only that data which is significantly different to planned targets and which is required for decision-making and control.

The reporting of results is often carried out separately from the reporting of resources. This may be because they are derived from separate information systems and the fact that financial reporting has been a more traditional and distinct requirement over the years.

To measure the efficiency and cost-effectiveness of a program, the relationship of resources to results must be clearly demonstrated. "What value are we getting for our money?" is the obvious question which prompts this standard.

Process Standard:

28. The reporting of results and resources is integrated to identify the relationship between them.

A proliferation of reporting systems and processes may be unnecessarily costly and take an inordinate amount of management time to review. Although gathering it from a variety of sources, a single method of reporting all required information at all levels of management will not only save time and money but will allow for easier aggregation and interpretation of reports. This standardized and formal method of reporting should not, however, preclude or replace the informal discussion and "reporting" which every manager routinely undertakes with superiors.

Process Standard:

29. A single format and process for reporting is used throughout the Ministry to avoid unnecessary cost and duplication and to allow for easier aggregation and interpretation.

Management reporting has often been perceived as an activity carried out by staff specialists for Ministry senior management only. The increasing decentralization and accountability of decision-making in the Ontario Public Service requires that managers at all levels be responsible for decision-making and control based on timely and relevant information. In addition to data which managers collect for their superiors and for support branches it is increasingly important that all managers determine what information they need individually on a regular basis to manage effectively.

Process Standard:

30. The determining of, and reporting on, both resource data and results information is the responsibility of every manager at every level.

Variances Analyzed and Explained

For reporting to make a meaningful contribution to decision-making, the stating of variances between planned and actual results and resources is not enough. The identified variance or "exception" should be accompanied by an analysis of the nature, relative magnitude and significance of the variance and the likelihood of its continuing if no corrective action is taken.

Process Standard:

31. The analysis of significant variances in both resources and results states the nature, relative magnitude and significance of the variance, and a forecast of the likelihood of its continuing.

Since reporting is intended to contribute to effective management control, it is important to time the steps in the reporting process so that sufficient time is allowed for corrective action to be considered and taken. This reinforces the need for regular in-year reporting at intervals beginning early in the fiscal year. Effective reporting throughout the balance of the year is important in order to contribute meaningfully to the subsequent year's plans and budgets.

Process Standard:

32. Analysis and explanation of variances occurs in sufficient time to allow for corrective action to be considered and taken.

Corrective Action or Adjustment

The third step of an effective reporting process is the recommendation for, or a statement of, corrective action to be taken. If a report indicates a significant variation from the plan, then it follows that either corrective operational action has to be taken or the plan and budget have to be adjusted. The manager who reports, analyzes and explains the variance should be responsible for recommending or stating the corrective action necessary.

Process Standard:

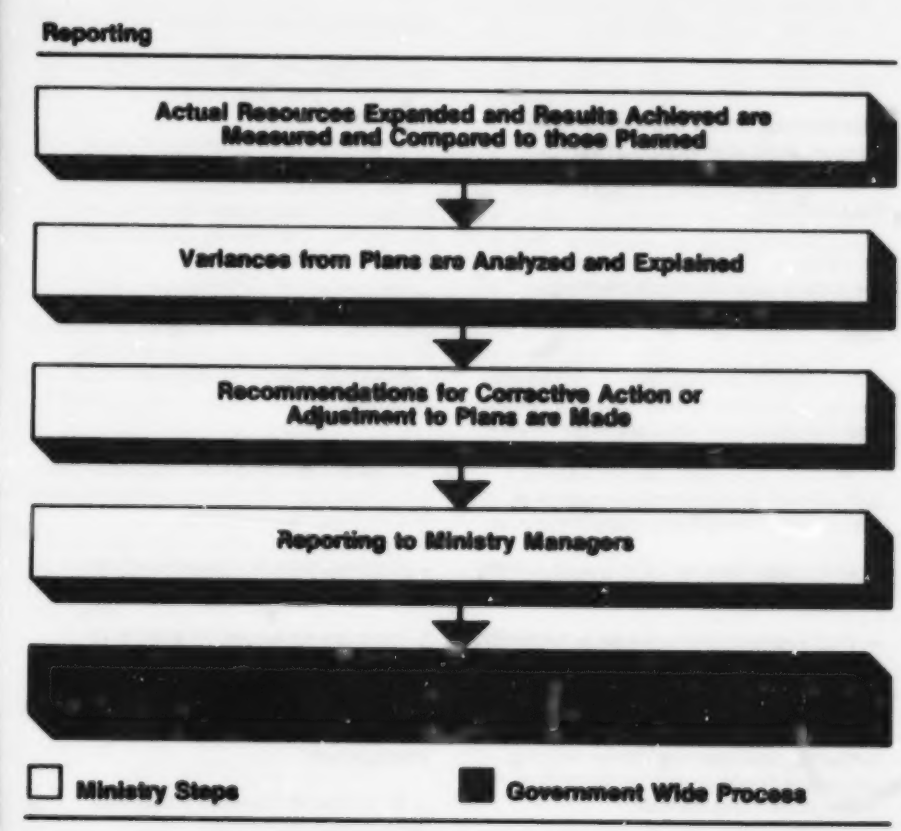
33. Management reporting includes a statement of corrective action and/or adjustment to plans and budgets.

To ensure that corrective action and its implications are understood and agreed on, it is essential that regular forums for discussion of corrective action or adjustment are established. While the nature, participation in, and timing of these forums will vary widely across ministries, the participatory nature of an effective planning and reporting process requires that this interaction take place.

Process Standard:

34. A manager and superior meet on a regular basis to discuss corrective action and adjustment to plans.

Figure 4 This diagram summarizes the major steps in an effective management reporting process.


Reporting
Actual Resources Expended and Results Achieved are Measured and Compared to those Planned
Variances from Plans are Analyzed and Explained
Recommendations for Corrective Action or Adjustment to Plans are Made
Reporting to Ministry Managers
Ministry Steps
Government Wide Process

Appendix "A"

Summary of Principles and Standards for Operational Planning, Budgeting and Reporting

Principles

The process of operational planning, budgeting and reporting is satisfactory when:

1. The process is supportive of, and responsive to, the political decision-making system, based on our democratic and responsible system of government.

2. The process involves all managers at every level of the ministry organization.

3. The process assists the manager in doing the job more easily and effectively.

4. The process provides the basis for holding managers accountable for results and rewarding them for achievements.

5. Integration of the components of planning, budgeting and reporting into an ongoing process between each level of ministry management is achieved.

Standards

Operational planning is satisfactory when:

1. Operational plans are responsive to Government and ministry strategic objectives and priorities.

2. Senior management develops planning guidelines which give managers direction on estimated financial resources available, policies, priorities, objectives and new initiatives.

3. Formal instructions are distributed to all managers describing how they are to prepare plans to show both results expectations and resource requirements.

4. Plans are submitted in a standardized format.

5. Plans are developed by every level of manager.

6. Plans developed at each level of management are approved by a higher level of management.

7. Each level of management is held accountable for results.

8. Plans include program performance targets (results to be achieved).

9. Plans specify resources required, target dates, and the activities necessary to achieve the results described.

10. Plans specify indicators to be used to measure results and include:

- workload indicators
- efficiency indicators
- effectiveness indicators.

11. Plans provide information adequate for:

(a) the respective levels of ministry management for decision-making, and

(b) are consistent with central agency requirements.

12. Operational plans include proposals in order of priority.

13. There is a negotiation and approval process for plans at each organizational level.

14. Plans are aggregated as they are passed up through the Ministry.

15. Plans are responsive to changes in circumstances and, when justified, are reviewed and revised.

16. Any changes to plans are communicated to all managers who had responsibility for the planning work or who are affected by the changes.

17. Plans are linked to individual objective setting and management performance appraisal.

Budgeting is satisfactory when:

18. Detailed budget preparation guidelines are issued to all managers.

19. Budgets are clearly based on the documented operational plans.

20. The performance indicators used to measure achievement of results committed in the operational plans form the basis for reporting results to Management Board.

21. Budgets for all organizational units are reviewed to include:

- verification of all computations
- comparison of unit costs to averages for other similar organizational units
- verification of resource requirements
- comparison of aggregate program costs with program allocations
- assessment of budget implications for support services.

22. Budgets are approved at the senior management level to ensure that:

- plans are complete
- workload forecasts are realistic
- performance standards and results expectations are attainable
- performance standards are comparable to those of similar centres.

23. Managers schedule (calendarize) results to be achieved and resources to be used.

24. Corresponding changes to results expectations are made following budget adjustments.

Reporting is satisfactory when:

25. It includes three basic steps:

- Actual resources expended and results achieved are measured and compared to those planned
- Variances from plans are analyzed and explained
- Recommendations for corrective action or adjustment to plans are made.

26. It is supported by accurate and reliable information systems which are subject to verification and audit.

27. It is exception-based at each organizational level, in that it provides only that data which is significantly different to planned targets and which is required for decision-making and control.

28. The reporting of results and resources is integrated to identify the relationship between them.

29. A single format and process for reporting is used throughout the Ministry to avoid unnecessary cost and duplication and to allow for easier aggregation and interpretation.

30. The determining of, and reporting on, both resource data and results information is the responsibility of every manager at every level.

31. The analysis of significant variances in both resources and results states the nature, relative magnitude and significance of the variance and a forecast of the likelihood of its continuing.

32. Analysis and explanation of variances occurs in sufficient time to allow for corrective action to be considered and taken.

33. Management reporting includes a statement of corrective action and/or adjustment to plans and budgets.

34. A manager and superior meet on a regular basis to discuss corrective action and adjustment to plans.